Generali Group

INSURANCE DOSSIER 2018

ITALIAN MARKET TRENDS - FLASH 2017/18

Group Insurance Research

generali.com

CONTRIBUTORS:

Raffaella Bagata

Roberto Menegato

Monica Ricatti

Antonio Salera

Federica Tartara

CONTACTS:

Roberto Menegato
Group Insurance Research
Roberto.Menegato@Generali.com
Assicurazioni Generali S.p.A.
Piazza Duca degli Abruzzi, 2
34121 Trieste
tel. 0039 040 671458

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1 Executive summary

Europe

The growth of gross written premiums in 2017 was significant in the Central and Eastern European countries, while it was negative or stable with respect to the previous year in the Western countries, with the exception of Germany, penalized by the negative trend of the Life insurance. Traditional life insurance continued to suffer from the low level of core yields and from the capital requirements of Solvency II. As a consequence, there has been a shift by insurers from traditional products towards Unit linked and hybrid ones, which have performed well, but not enough to counterbalance the negative performance of traditional life products.

Italy

In 2017 the overall premium income in the Italian insurance industry declined for the second year in a row (-2.2%) amounting to almost 140 billion. Premium income in the life segment amounted to 103 billion suffering a 3.4% decrease (considering gross direct business written by Italian companies).

The current low interest rate environment continued to negatively affect the appeal of guaranteed products and, also in the light of the stringent requirements imposed by Solvency II, insurance companies have shifted the product mix in favor of class III policies and multiline (hybrid) products.

With respect to distribution channels, the turnover of Bancassurance - which includes Post Offices - fell by 6.6% (-6.4% taking into account the offshore business) accounting for 59.5% of the overall premium income (61.6% in 2015).

The market share of Agents fell to 13.6%, whereas that of the Company staff reached 8.5%.

The turnover of financial advisors increased from 15.8% last year to 17.1%; therefore their market share was up by 4.5%.

After five years of disappointing results, the non-life lines grew by 1.2% but negatively affected by the poor trend in the motor sector (-0.7%), due to the strong competition between operators favored by the good technical results, driven by low claims frequency (in line with European countries) and by a contraction, albeit slight, in the average cost of claims.

Premiums in the land vehicle line continued to substantially increase (+6.5%) mainly due to a marked increase in car registrations (+7.9% in 2017). The growth of this branch was sustained by incentives (limited to professional people or businesses) to invest in the purchase of new machinery including cars. However, during the last quarter, some of the major car manufacturers, having reached their sales objectives for the year, changed their commercial strategies no longer offering discounts, promotional sales or the so-called “kilometer zero” cars.

Generali Group confirmed its market leadership in terms of global business, with a premium income of €23,165 million and a 16.6 % market share.

Poste Italiane was again the leading company in the life sector, with a 19.7% market share (as compared to 18.6% last year) and a premium income of € 20,263 million, (up 9.2% in 2017).

Unipol maintained its leadership in the non-life segments with a premium income amounting to € 7,790 million and a 21.2% market share.

2 The european insurance markets

The growth of gross written premiums in 2017 was significant in the Central and Eastern European countries, while it was negative or stable with respect to the previous year in the Western countries, with the exception of Germany, penalized by the negative trend of the Life insurance. Traditional life insurance continued to suffer from the low level of core yields and from the capital requirements of Solvency II. As a consequence, there has been a shift by insurers from traditional products towards Unit linked and hybrid ones, which have performed well, but not enough to counterbalance the negative performance of traditional life products.

On the Life insurance side, we had negative rates of growth in premiums in Austria, Switzerland and the Czech Republic, as already seen during 2016, and in France and Spain as well. On the contrary in Germany, Poland and Slovakia the result turned out positive and in Hungary it continued the good trend of 2016.

EUROPEAN INSURANCE MARKET TRENDS

	Total				Life				Non Life			
	2014	2015	2016	2017	2014	2015	2016	2017	2014	2015	2016	2017
AT	3,5	1,8	-2,6	0,3	3,9	1,1	-6,6	-2,8	3,1	2,5	1,4	3,2
CH	1,0	0,1	-5,5	-2,5	1,4	0,0	-6,0	-3,8	0,1	0,1	-4,5	0,2
CZ	0,9	-2,8	-4,1	1,4	-0,5	-12,3	-4,5	-1,3	2,0	5,0	-3,7	3,3
DE	2,7	0,8	0,2	1,8	2,5	-0,4	-1,1	1,2	3,0	3,3	2,9	3,0
ES	-0,6	2,5	12,3	-0,7	-2,6	2,9	21,8	-5,6	1,1	2,1	4,5	4,0
FR	5,6	4,7	0,7	-0,1	8,9	5,1	0,1	-0,9	-3,5	3,4	2,5	2,3
HU	4,9	2,5	5,4	7,0	4,7	-2,6	3,1	5,0	5,2	8,2	7,7	9,0
PL	-3,9	-0,2	-1,3	11,6	-8,2	-4,0	-13,5	3,0	1,3	3,9	11,0	18,3
SK	0,6	2,1	-2,6	8,5	-1,7	-0,6	-6,8	9,2	3,6	5,6	2,3	7,7

Note: Non-Life is not inclusive of Health for Austria, France and Germany,

In particular, in France, the second half of the year experienced a more dynamic evolution, after the election period which had pushed savers to wait. The reposition of the life portfolio towards the Unit linked product went on: the weight of traditional products fell down from 50% in 2015 to 31% in 2017.

In Germany, Life premiums (excluding Health) fell slightly (-0.1 %), however behaving better than expected. The new single premium production was slightly down (-0.5%) while the contraction of recurring premiums was heavier (-4.6%). The share of fund-related products has increased, while the proportion of traditional policies with guaranteed returns has fallen to around 40% of new business. Collective pension policies also increased, representing 21.3% of total life production. Total Health revenue increased by 4.3%, of which 94% Health insurance (+ 4.1%), the rest Long term care (+ 6.1%).

In Spain the decrease of the Life insurance premiums of 5.6% was due to traditional life products, which decreased by 6.4%, notwithstanding the good performance (+3.8%) of the Unit linked products, whose relative weight increased from 7% in 2016 to 11.3% in 2017.

In Austria, Life insurance premiums written in 2017 (excluding Health) fell by 5.1%, mainly due to the severe contraction in single premiums (-20.8%). On the other hand, recurring premiums almost held their ground, at -1.7%. The VVO estimates that in 2017 private Health insurance premiums increased by 3.7%, with a 5.2% increase in claims.

According to SVV projections, Life insurance in Switzerland fell by 3.8% in 2017, although the decline was less pronounced than in the previous year (2016: - 6.0%). In particular, the contraction was 4.2% in collective and 2.9% in individual life. In both fields, insurers have difficulty in producing satisfactory returns in the current context of low interest rates.

The sound result for Life premiums in the CEE was linked to the strong dynamics in their internal demand, and in particular of the labour market, almost at full employment.

The European insurance market has been kept afloat, both in terms of turnover and profitability, by the Non-life lines, thanks to the sound economic fundamentals of some economies, such as Germany and the CEE countries, notwithstanding the problematic financial context of low yields.

The pick up of premiums in the Motor lines has usually been sustained both by the increase and the renewal of the park (even if cars were substituted with lower powered models). Also the other non Motor procyclical lines took advantage of the positive momentum.

The German non-life sector (excluding Health) recorded a 2.9% growth; the GDV estimates a 3.2% increase in claims, and therefore a slight worsening of the loss ratio. Nonetheless, the combined ratio is expected to remain unchanged at 95%.

2017 INSURANCE MARKET PENETRATION

	TOTAL	LIFE	NON LIFE
AT	4.6%	2.1%	2.5%
CH	6.8%	4.4%	2.3%
CZ	3.0%	1.2%	1.8%
DE	6.1%	4.0%	2.1%
ES	5.4%	2.5%	2.9%
FR	9.3%	7.0%	2.3%
HU	2.6%	1.3%	1.3%
PL	3.0%	1.2%	1.8%
SK	2.8%	1.4%	1.3%

In France the non-life lines have seen a pick up in premiums slightly lower than in 2016 (2.3% vs 2.5% in 2016). Premiums in the Motor lines went up by 1.9%, but claims rose as well: even if frequency has gone down their average cost increased (by 20% in the last seven years).

In Spain, all the non-life lines continued their positive trend, even if at a lowest degree than in 2016, closing the year with a growth of 4%. The Motor lines went up by 3.4%, thanks to increases in tariffs and in cars in circulation; the Health lines by 4.2% and the multirisk lines by 2.2%.

The Austrian non-life sector (excluding Health) grew by 2.3% over the same period. A further contraction of total claims confirms the growing trend of profitability. Once again, this result effectively counterbalances the problematic situation of the Life sector.

For the Swiss non-life sector, the estimated growth was 0.2%. In Motor, the modest increase in premium collection (0.3%) is attributable to the growth in new car registrations, while in Property (+ 0.5%) the positive development of investments in construction and purchasing power and the growth of the population effectively counterbalanced the weak tariff cycle due to the favorable evolution of the previous loss ratio.

In the CEE countries non-life lines posted strong result, especially the Motor lines, thanks to increasing sell of cars and increase in tariffs.

3 “Insurtech”

The use of the Internet and, above all, of smartphones, today is extremely widespread in Italy, especially among the new generations who use the devices to inform themselves, to communicate and to purchase goods and services with important consequences also for companies. In light of these rapid transformations, the insurance industry must keep pace, renewing the business and service models that are increasingly based on new technologies. It is for this reason that in recent years "Insurtech", that is the application of new technologies, has been increasingly developing in the insurance sector. Technological innovation is one of the main drivers of change in the insurance sector that has effectively changed the interaction between businesses and consumers.

The diffusion of connected devices, both static and moving, produces information of great importance that allows the transmission of a large amount of data in real time that continually reclassifies the risk profile of the insured, encouraging virtuous dynamics, that are able to affect the general level of claims through the dissemination of prudent behavior. Similar reasoning can also be made for health insurance policies, which can be combined with detectors of vital functions to wear and also for home insurance, linked to the installation of heat and humidity sensors. In short, we can state that new technologies open up new markets, allow the coverage of new risks, reduce some operational risks (such as frauds) but also increase their exposure to others (cyber risks). Furthermore, innovation has led to an expansion of the product range, modification of hiring techniques and risk pricing.

These developments are particularly important in a situation like the Italian one, where there is a wide gap in the protection of households with regard to different types of risk: from health risks to those relating to damage and assets. The diffusion of technologies in connection with insurance products can contribute to overcoming this deficiency of protection, it can increase awareness of risks, their more efficient management and can also place an appropriate focus on prevention. The insurance intervenes in this process assuming a more consultant role on the risks to which people and goods are exposed on a daily basis: in perspective, insurance companies rather than focusing only on compensation for damages will be concerned with solving the problem that it has caused it, trying to seize further competitive advantages both in terms of efficiency and in the improvement of the offer and assistance to the customer. In this regard, many companies have set up specific areas of innovation and started collaborations with specialized companies, without counting other important proposals that are recorded in the fields of health, instant coverage and customer experience.

The main initiatives include:

- *online comparative portals that allows comparison between different insurance products and providers;*
- *"digital" brokers: insurance distribution activities carried out through web portals or through specific apps designed for mobile telephony;*
- *"Insurance Cross Sellers": offer of insurance products "complementary" to main products;*
- *"Peer-to-Peer Insurance": contacting individuals interested in insurance coverage based on mutuality principles;*
- *"On-demand Insurance": offer of insurance products for a predetermined period of time;*

- *"Digital Insurers": offer of insurance solutions in a completely "digital" form, only accessible through digital channels;*
- *"Big Data Analytics & Insurance Software": supply of software solutions;*
- *"Internet of Things": allows data collection through tools equipped with advanced digital technologies (smart devices);*
- *"Blockchain & Smart Contracts": create solutions that allows transactions carried out through a tamper-proof database system;*

In this period of great transformation, ANIA is supporting companies in this process of innovation both in the modes of communication, and in the field of supply, organization and distribution, aware of being an important actor, in guaranteeing protection and stability in a phase of great economic and social change.

The technological challenges that the sector is preparing to face not only generates significant economic and social benefits, but also have implications for both the insurer and the client. Just think of the requirements for privacy, as in "connected" insurance the opportunities for meetings are continuously multiplied, complicating the acquisition of the necessary consents. Another important potential risk related to the use of digital technologies is cyber risk. The latter is an operational risk associated with an economic damage deriving from malfunctions of its IT system or from malfunctions of other systems that are not controlled. The origin of the risk can be: accidental, in the case that the events occur independently of the will of all the subjects involved or deliberated, in the case that the events derive from voluntary actions on the part of subjects whose purpose is to reach personal goals of various kinds (eg theft of sensitive data). In fact, the increase in global interconnection is associated with an increase in vulnerability to cyber-based attacks and incidents with a consequent increase in requests to insurers to protect against such risks, which are however extremely difficult to assess and quantify, since computer science are characterized by immateriality. They affect non-tangible assets, but are nonetheless functional and indispensable for the performance of any activity. To this we can add that the damage can be pervasive or it can extend to a loss of corporate image and reputation, as well as to the consequent loss of market shares: a hardly quantifiable and indemnifiable damage.

Furthermore, the most advanced technologies will increasingly have a significant impact on regulation and supervision of insurance activity. This discipline is called "regtech" and can be defined as the use of new technological solutions to facilitate regulatory compliance in the financial services sector. In the short term, it provides operational efficiency and a reduction in costs. In the long term, its adoption will allow consumers to grow their trust through a better customer experience. What matters most is that traditional insurers have the opportunity to develop innovative products and services for the benefit of customers and have access to supervisory tools to support innovation. Banks and insurance companies are investing heavily in this new sector and aim to arrive at standardized solutions already in the next three or four years. In a world in continuous and rapid evolution, the insurance sector must increasingly keep up with the times to be able to give competent and immediate answers to its customers, offering them valid and concrete products of protection and investment.

4 The Italian insurance market: volume and business breakdown

In 2017 the overall premium income in the insurance industry declined for the second year in a row (-2.2%) amounting to almost 140 billion.

LIFE INDIVIDUAL NEW BUSINESS

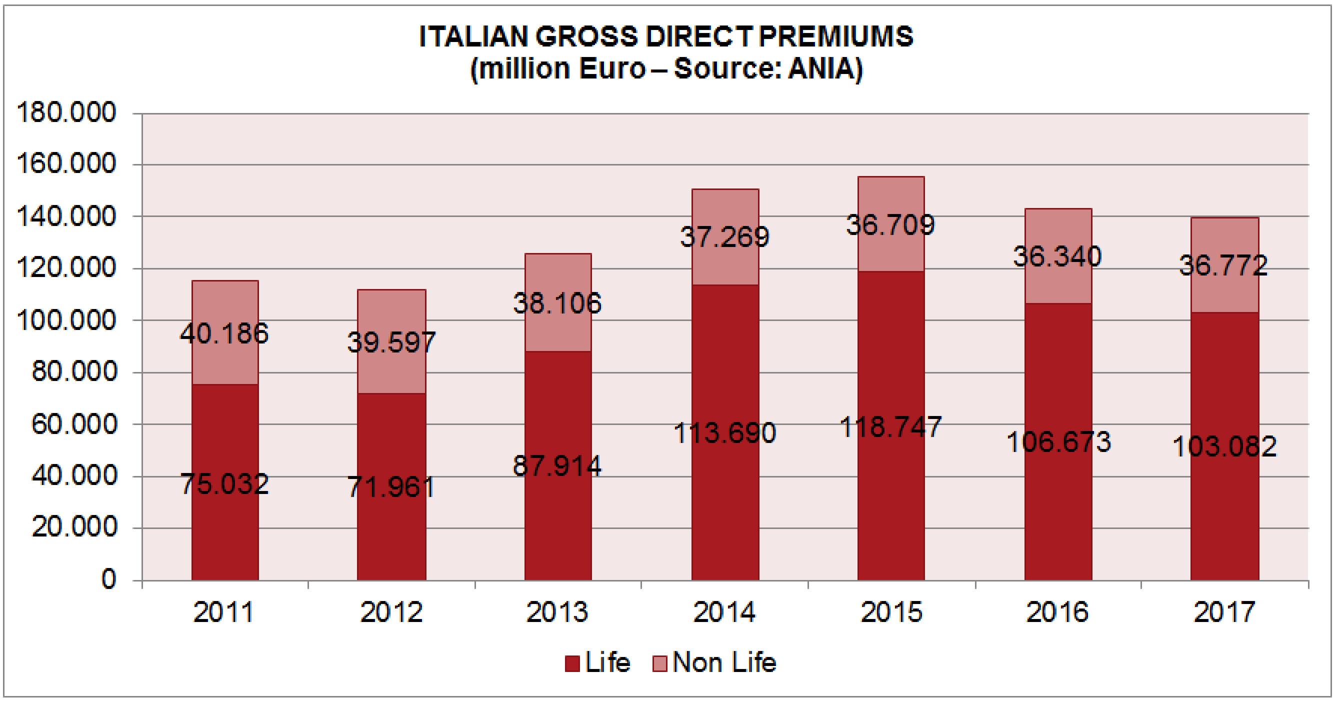
National, extra UE and UE companies (change %)

Line of business	2017 Mln Euro	Ch. % 17/16	Ch. % 16/15	Ch. % 15/14
Lob I	50,477	-18,6	-4,5	-4,1
Lob III	44,618	15,9	-20,2	28,4
of which Unit	44,618	*15,9*	*-20,2*	*28,5*
Index	-	*0,0*	*-100,0*	*-99,6*
Lob V	1,457	-16,5	-25,7	-20,7
Other	166	20,4	-3,3	30,9
Total	**96,718**	**-5,5**	**-11,5**	**6,4**

Source: ANIA

Premium income in the life segment amounted to 103 billion suffering a 3.4% decrease (considering gross direct business written by Italian companies). Direct Italian premium income inclusive of UE companies also declined by 5.5% during 2017.

In the non-life segment gross direct premiums grew by 1.2% after the bad performance of the last five years, driven by the non-motor sector. Poor trend in the motor sector continued despite signs indicating a weakening of market competition.



Due to the decline in life insurance premium income, insurance penetration (premiums to Gross Domestic Product) decreased from 6.3% last year to 6%.

The current low interest rate environment continued to negatively affect the appeal of guaranteed products and, also in the light of the stringent requirements imposed by Solvency II, insurance companies have shifted the product mix in favor of class III policies and multiline (hybrid) products.

Premium income of traditional life policies (Class I) contracted by 14.8% during 2017. By contrast, Poste Vita (+1.9%) and Aviva (+2.5%) have continued to target their sales strategy in favor of traditional products with guarantees, thus increasing their market share.

Traditional products (I and V) recorded a 8% decrease as compared to 2016 and accounted for 64.3% of the life premium income. Class III policies, constituted mainly by unit-linked policies, accounted for 33.7% of the premium income whereas in 2016 it was only 25.6%

Although in 2016 over 91% of "investment contracts" were sold through banks and financial advisors, in 2017 this percentage dropped to 89.5% indicating that traditional distribution channels had regained their market share.

With respect to distribution channels, the turnover of Bancassurance - which includes Post Offices - fell by 6.6% (-6.4% taking into account the offshore business) accounting for 59.5% of the overall premium income (61.6% in 2015).

The market share of Agents fell to 13.6%, whereas that of the Agencies reached 8.5%.

The turnover of financial advisors increased from 15.8% last year to 17.1%; therefore their market share was up by 4.5%.

DISTRIBUTION CHANNEL MARKET SHARE

LIFE BUSINESS (percentage)

Distribution channel	2013	2014	2015	2016	2017
Banks	43,0	47,8	46,7	43,0	39,8
Post Offices	15,0	13,6	15,3	18,6	19,7
Tied agents	14,1	12,5	12,5	13,9	13,6
Company staff	8,6	7,7	7,1	7,8	8,5
Financial advisors	18,3	17,9	17,9	15,8	17,1
Brokers	1,0	0,6	0,5	0,8	1,3
Total	**100,0**	**100,0**	**100,0**	**100,0**	**100,0**

Source: ANIA

According to data of the first quarter of 2018 insurance companies remained focused on multi-line products; as of March 2018 class III products were up by 6% with class I products also showing signs of recovery: almost a +1% increase. Overall, life premiums grew by 3% in the first quarter of the year according to data on inflows and technical reserves provided by ANIA.
The sector is expected to strengthen through the year thanks to further positive factors:

- *the new IVASS regulation on traditional products allows firms to reduce capital guarantee for policyholders (from 100% to 95-90%), as well as insurance companies to spread capital gains on government bonds over several years, thus stimulating demand for traditional insurance policies, on the grounds that these are products with lower capital absorption;*
- *according to the specific guidelines on PIR (Individual Savings Plans, ie the plans that invest in shares of small medium sized companies whose returns are not taxed if the investment lasts at least five years) recently published by the Italian Ministry of Economy and Finance, having increased the limit of PIR within hybrid policies, insurers will be allowed to offer their customers a financial product with tax advantages combined with insurance protection (so far, companies had offered PIRs to their customers through unit-linked policies).*

After five years of disappointing results, the non-life lines grew by 1.2%; however, insurance penetration in the non-life lines remained in line with 2016 results (2.1% of GDP).

ITALIAN GROSS DIRECT PREMIUMS

National, extra UE and UE companies (million Euro)

Lines of business	2017	Share %	Ch. % 17/16	Ch. % 16/15	Ch. % 15/14	Ch. % 14/13
Accident	3,514	2,5	2,8	0,8	0,4	0,3
Health	2,704	1,9	9,3	8,3	2,2	1,2
Motor other risk	3,037	2,2	6,5	6,1	3,4	-1,2
Marine, Aviation & Transport	697	0,5	-2,2	-1,9	3,2	-2,9
Fire	2,672	1,9	-0,1	0,9	0,1	0,7
Other damages	3,181	2,3	2,2	0,5	-0,9	3,8
Motor TPL	13,819	9,9	-2,2	-5,5	-6,5	-7,0
General Liability	4,162	3,0	0,9	-0,4	5,3	2,3
Credit / Suretyship	1,025	0,7	-1,2	5,3	1,9	0,7
Others	1,960	1,4	8,2	0,9	6,0	9,5
Total NON LIFE	**36,772**	**26,3**	**1,2**	**-1,0**	**-1,5**	**-2,2**
of which motor	***16,856***	**12,1**	**-0,7**	**-3,7**	**-5,1**	**-6,2**
non-motor	***19,916***	**14,2**	**2,8**	**1,5**	**2,1**	**2,1**
Totale LIFE	**103,082**	**73,7**	**-3,4**	**-10,2**	**4,4**	**29,3**
Total	139,854	100,0	-2,2	-8,0	3,0	19,8

Source: ANIA

The fall in motor premiums was in line with the previous years. This was largely due to the poor trend in the motor sector (-0.7%), affected by the strong competition between operators which had experienced good technical results, driven by low claims frequency (in line with European countries) and by a contraction, albeit slight, in the average cost of claims.

Notably, Motor Third Party Liabilities premiums dropped by 2.2% as against -5.5% in 2016, -6.5% in 2015 and -7% in 2014. Data for the current year released by listed companies seems to be sound and in line with 2016, as far as technical results are concerned.

Premiums in the land vehicle line continued to substantially increase (+6.5%) mainly due to a marked increase in car registrations (+7.9% in 2017). The growth of this branch was sustained by incentives (limited to professional people or businesses) to invest in the purchase of new machinery including cars. However, during the last quarter, some of the major car manufacturers, having reached their sales objectives for the year, changed their commercial strategies no longer offering discounts, promotional sales or the so-called "kilometer zero" cars.

As compared to recent years, the growth in the non-motor segment was more robust (+2.8% versus +1.5% and +2.1% recorded in 2016 and 2015 respectively). With the exception of the transport sector and credit and suretyship, which declined by 2.2% and 1.2% respectively, all other non-life segments were on the rise: the property sector (Fire and other property damage) expanded by 1.2%, accident grew by 2.8% and other small lines such as legal insurance, assistance and financial loss services were up by 8.2%. Health showed a strong growth of +9.3% (as against +8.3% in 2016) as a result of tax relief incentives to encourage businesses to introduce personalized welfare plans for employees. Under these plans employees could access additional family and health services. Above all however, growth was determined by the fact that many families decided to take out health insurance to ease their out of pocket health expenses.

Premiums collected by EU firms that sell their products in Italy under freedom of services (FOS) increased by 0.2% (+0.1% in the non-motor), which is a modest result after years in which they had performed better than Italian Companies.

DISTRIBUTION CHANNEL MARKET SHARE
NON LIFE BUSINESS (percentage)

Distribution channel	2013	2014	2015	2016	2017
Tied agents	76,3	75,1	73,6	72,3	71,9
Brokers	12,1	12,4	12,8	13,2	13,5
Company staff	2,0	2,2	2,4	2,4	1,8
Direct selling (phone, internet)	5,7	5,8	6,0	6,0	6,1
Banks	3,7	4,3	5,0	5,8	6,4
Financial advisors	0,1	0,2	0,3	0,3	0,4
Total	100,0	100,0	100,0	100,0	100,0

Source: ANIA

Data recently released by ANIA show that the share of the Italian Branches of EU Companies operating in the non-life sector remained at substantially the same level as last year (12.1% with a homogeneous perimeter).

Agencies, which are still the most significant distribution channel, recorded a slight decrease in premiums, posting 73.7% against 74.7% in 2016 and 76% in 2015. They are followed by brokers (13.5%) specialized in commercial risks.

The weight of direct channel remained stable at 6.1% (reaching 8.2% in the motor segment).

The banking channel, mainly focusing on non-motor insurance products, also continued to grow (6.4% against 5.8% in 2016). Its market share has increased from 3% in 2016 to 3.2%.

5 Ranking of Groups - all segments

During 2017 the most significant operations involved HDI Assicurazioni, which acquired InChiaro Assicurazioni and InChiaro Vita, Paribas Cardif, which took full ownership of CARGEAS, and finally, Società Cattolica di Assicurazione which acquired a major stake in the companies Avipop Assicurazioni, AVIPOP Vita and Popolare Vita.

Internal reorganization within various groups took place in order to streamline company structures and reduce their management costs: the merger by incorporation of CBA Vita and InChiaro Assicurazioni into HDI Assicurazioni; the merger by incorporation of Eurovita Assicurazioni S.p.A. and Old Mutual Wealth Italy S.p.A. into ERGO Previdenza S.p.A, which changed its corporate name to "Eurovita"; the merger by incorporation of Nobis Compagnia di Assicurazioni into Filo diretto, which became the new company Nobis Assicurazioni. Finally, we would like to highlight the merger by incorporation of Quadra Assicurazioni and Quadra Assicurazioni Vita into Axa Assicurazioni.

LIST OF THE TEN LEADING GROUPS

Italian direct premiums in 2017 (million Euro)

Rank 2017	Rank 2016	Group	TOTAL	Share %	LIFE	Share %	NON LIFE	Share %
1	1	Generali	23,165	16,6	17,405	16,9	5,760	15,7
2	2	Poste Italiane	20,405	14,6	20,263	19,7	141	0,4
3	3	Intesa San Paolo	15,018	10,7	14,587	14,2	432	1,2
4	5	Allianz	12,965	9,3	8,082	7,8	4,883	13,3
5	4	Unipol	11,427	8,2	3,637	3,5	7,790	21,2
		FIRST FIVE GROUPS	**82,980**	**59,3**	**63,974**	**62,1**	**19,006**	**51,7**
6	8	Cattolica	5,812	4,2	3,706	3,6	2,106	5,7
7	7	Aviva	5,556	4,0	5,144	5,0	412	1,1
8	6	AXA	4,534	3,2	2,625	2,5	1,908	5,2
9	9	Cardif/BNP	4,437	3,2	4,062	3,9	375	1,0
10	13	Reale Mutua	3,849	2,8	1,873	1,8	1,976	5,4
		SECOND FIVE GROUPS	**24,188**	**17,3**	**17,411**	**16,9**	**6,777**	**18,4**
		TOTAL	139,854	100,0	103,082	100,0	36,772	100,0

Source: ANIA

Generali Group confirmed its market leadership in terms of global business, with a premium income of €23,165 million and a 16.6% market share.

Poste Italiane remained second with a 14.6% market share and a premium income of € 20,405 million, ahead of Intesa Sanpaolo (€ 15,018 million and 10,7% market share). Allianz ranked fourth with almost 13 billion and a 9.3% market share, followed by Unipol, which dropped one place and ranked fifth with a 8.2% market share.

Market concentration slightly decreased in 2017: the market share of the top five groups fell from 59.5% in 2016 to the current 59.3%; on the contrary, the overall market share held by the ten leading groups increased from 75.7% in 2016 to 76.6%.

6 Ranking of Groups: Life segments

Poste Italiane was again the leading company in the life sector, with a 19.7% market share (as compared to 18.6% last year) and a premium income of € 20,263 million, (up 9.2% in 2017).

Generali remained second with a 16.9% market share, stable compared to 2016, and a premium income of € 17,405 million, followed by Intesa Sanpaolo (14.2% market share).

Allianz ranked fourth with a premium income of € 8,082 million and a 7.8% market share (6.5% last year), ahead of Aviva (5.1 billion and 5% market share).

Cardif/BNP rose one place to 6th spot, while Cattolica, with a 3.6% market share, gained 5 positions moving to 7th, thanks to the recent acquisition of AVIPOP Vita and Popolare Vita.

Unipol lost ground and ranked eighth, a reflection of the sale of shares held in Popolare Vita.

Market concentration slightly declined: the combined market share of the top five groups fell from 63.7% in 2016 to the current 63.5%; the share of the top ten operators rose from 79.2%% to 80.6%.

LIST OF THE TEN LEADING GROUPS IN LIFE SECTOR

Rank 2017	Rank 2016	Group	LIFE	Share %	Change %
1	1	Poste Italiane	20,263	19,7	2,2
2	2	Generali	17,405	16,9	-3,4
3	3	Intesa San Paolo	14,587	14,2	-2,4
4	4	Allianz	8,082	7,8	16,4
5	6	Aviva	5,144	5,0	10,4
		FIRST FIVE GROUPS	**65,481**	**63,5**	**-0,9**
6	7	Cardif/BNP	4,062	3,9	-4,0
7	12	Cattolica	3,706	3,6	35,9
8	5	Unipol	3,637	3,5	-42,5
9	10	Mediolanum	3,346	3,2	8,7
10	11	CNP Assurances	2,843	2,8	-1,1
		SECOND FIVE GROUPS	**17,594**	**17,1**	**-4,9**
		OTHERS	**20,006**	**19,4**	**-9,6**
		TOTAL	103,082	100,0	-3,4

Source: ANIA

7 Ranking of Groups: Non-life segments

LIST OF THE TEN LEADING GROUPS IN NON LIFE SECTOR

Rank 2017	Rank 2016	Group	NON LIFE	Share %	Change %
1	1	Unipol	7,790	21,2	0,7
2	2	Generali	5,760	15,7	-2,2
3	3	Allianz	4,883	13,3	-1,4
4	4	Cattolica	2,106	5,7	6,7
5	5	Reale Mutua	1,976	5,4	1,6
		FIRST FIVE GROUPS	**22,515**	**61,2**	**0,1**
6	6	AXA	1,908	5,2	2,4
7	7	Zurigo	1,270	3,5	-2,4
8	9	Vittoria (Acutis)	1,148	3,1	6,2
9	8	GAN/Groupama	1,136	3,1	4,0
10	10	ITAS	816	2,2	6,0
		SECOND FIVE GROUPS	**6,278**	**17,1**	**2,8**
		OTHERS	**7,979**	**21,7**	**3,1**
		TOTAL	36,772	100,0	1,2

Source: ANIA

In 2017 Unipol maintained its leadership in the non-life segments with a premium income amounting to € 7,790 million and a 21.2% market share, Generali kept the second place (15.7%% and € 5,760 million) followed by Allianz (13.3% and € 4,883 million), ahead of Cattolica (5.7%), Reale Mutua (5.4%) and Axa (5.2%) Non-life segments showed a further reduction in market concentration: the top five groups held 61.2% of the market, against 61.9% in 2016.

The market share of the top ten companies also fell from 78.7% to 78.3%.

8 PEPPs: Portability of third pillar pension rights in Europe

The PEPP is a voluntary personal pension scheme (III pillar) that offers all UE citizens new pan-European products with a defined set of regulated, standardized elements. On the one hand::

(i) they contribute significantly to the objectives of the EU's plans for a Capital Markets Union (CMU)

(ii) encourage long-term investments at low cost by European companies, making more funds available.

On the other hand, they aim to:

(i) contribute to the sustainability and Intergenerational Equity of pension issues, by stimulating pension systems based on individual capitalization in the EU Member States;

(ii) increase competition between private pension plans by expanding beyond the insufficient national markets thus distributing PEPPs to consumers throughout the EU creating economies of scale which reduce administrative costs;

(iii) improved portability could promote Labor mobility[1] of workers and citizens within Europe.

After a long debate initiated in 2012, the Commission presented its proposal for EU Regulation on a pan-European Personal Pension Product (PEPP) on June 29, 2017.

Why was PEPPs introduced?

- *An ageing population and the sustainability of pay-as-you-go public pension scheme:*
  - ***The old dependency ratio is currently one retiree to four working age adults: by 2060 the old age dependency ratio is expected to be one to two**.*
  - *despite the decision to raise retirement age, the **replacement rate of the public pension system is expected to decrease by 7.0 % on average** in the EU-28 by 2060.*
- *private pension schemes playing a minor role in Europe: currently, **only 27% of Europeans aged between 16 and 59 years of age have bought personal pension plans**. In EIOPA's view the European market for personal pensions is fragmented: a recent study **identified 72 different products**, managed by **numerous providers**, of which **insurance companies represent the bulk of the offer**. The value of private pension investments differs significantly between EU countries: for example, investments in the private pension system in Denmark, (a mix of private and public programs), exceeds two times its GDP whereas in Germany they account for just 6.8% of the GDP; and in Italy they are worth 9.4% of GDP.*

[1] In fact, first and second pillar pension entitlements already have standardized rules for portability.

- *several common features limit the development of the market for personal pension products:*
    - ***the offer of personal pension products across the EU is complicated and uneven****;*
    - ***the cross-border portability of personal pensions is limited****;*
    - *the* ***administrative costs are higher*** *than those of II Pillar schemes;*
    - *European* ***households traditionally favor short term "liquid" savings accounts*** *that permit ready availability of funds.*

<u>What is the market potential of PEPPs?</u>

There are benefits for both consumers *(greater variety of products, lower costs and portability of savings between EU Member States)* ***and providers*** *(stronger competition, opportunity for economy of scale). A study carried out by Ernst & Young on behalf of the European Commission concluded as follows:*

- *current personal pension products managed in the EU are worth Eur 700 billion;*
- *the introduction of the* ***PEPPs could potentially double the growth in the III pillar market****:* ***by 2030 the volume of PEPPs could reach Eur 2.1 trillion****. Whereas without the offer of PEPPs, the personal national markets would be expected to reach only to Eur 1.4 trillion.*
- *following the introduction of the PEPPs it has been calculated that* ***investments in equity are worth Eur 231 billion, while those in bonds are worth 385 billion, of which 14 billion in infrastructures****.*

- *Indeed, the uniform standardized nature of PEPPs is not comparable to the* ***individually tailored national regimes*** *in terms of labor market, pension rules, II pillar etc. across the EU;*
- *given these differences, some markets (where II and III Pillar are less developed) are inevitably more attractive than others (Slovenia vs France). This is even more evident if PEPPs lead to a single EU pension market which would overcome the problem of minimum size, something which today makes entry in small countries like Slovenia with only three million inhabitants unattractive.*

<u>Crucial factors for the success of PEPPs</u>

A prerequisite for PEPPs' success is the adoption of the fiscal principles set out in the Commission Recommendation of June 2017 by Member States: if Member States do not apply the same tax incentives to PEPPs as they do to similar domestic products, PEPPs will be less attractive to consumers and industry. However, even if tax obstacles are remedied on the European level, other critical issues remain:

At market level, although PEPPs attractiveness may vary from country to country, providers who offer a PEPPs product in their country must subsequently offer it in all members states within three years. This means being obliged to enter potentially unattractive markets where costs are higher.

At product level, the European Commission provided PEPPs with some features that can lead to unintended consequences:

- ***Switching of Providers**: the consumers are free to switch PEPPs providers every five years (Article 45 of the proposal) making it difficult for providers to rely on traditional insurance techniques such as risk sharing and pooling to stabilize profits in the long term and between specific groups of consumers.*
- ***Investment options**: Article 37 provides for a default option to ensure capital protection when setting up the investment option. It must be clarified whether "capital protection" implies a guarantee. This is an important aspect since a product with a guarantee would be subject, for example, to Solvency II rules.*

Taxation remains a critical issue

***Taxation and fiscal incentives** applied by individual members states to PEPPs **remain a vital question for the development of the markets**. If member states do not accept the recommendations of the European Commission to make fiscal incentives equal to those applicable to domestic products then interest in PEPPs is destined to be scarce.*

Even if Member States do apply the same tax rules applicable to comparable personal pension products under their national laws it should be noted that:

- ***tax regimes across the EU are not aligned,** therefore the administration in different countries with different regimes would be **complex and would limit the advantages of economy of scale**.*
- *in the case of workers' mobility within the Union, different tax regimes could subject the pension to either double taxation or total exemption depending on the nationality of the worker.*

- *Hopefully, the introduction of PEPPs would be an incentive to unify fiscal regulations in the different countries of the EU.*
- *In this context, a TEE regime[2] would substantially reduce the administrative cost of providing PEPPs products and portability because providers would not have to worry about administering different tax rules on investment income and at retirement. This would facilitate the portability of the PEPPs across Member States, increase the availability of PEPPs in all Member States, and reduce costs for the benefit of customers. Compared to an EET regime, a TEE regime[3] would also eliminate the risk that the PEPPs saver who moves abroad upon retirement, is able to evade the income tax levied on his pension fund in his home country.*

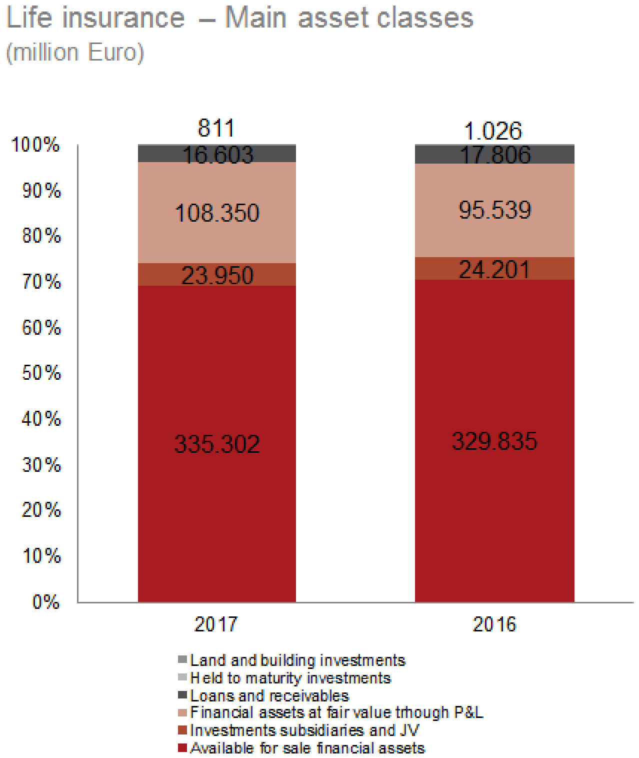
[2] *TEE (Taxation, Exemption, Exemption): fiscal regime where contributions are taxed, while yields and pension provisions are tax-exempt.*
[3] *EET (Exemption, Exemption, Taxation): fiscal regime where contributions and yields are tax-exempt, while pension provisions are taxed.*

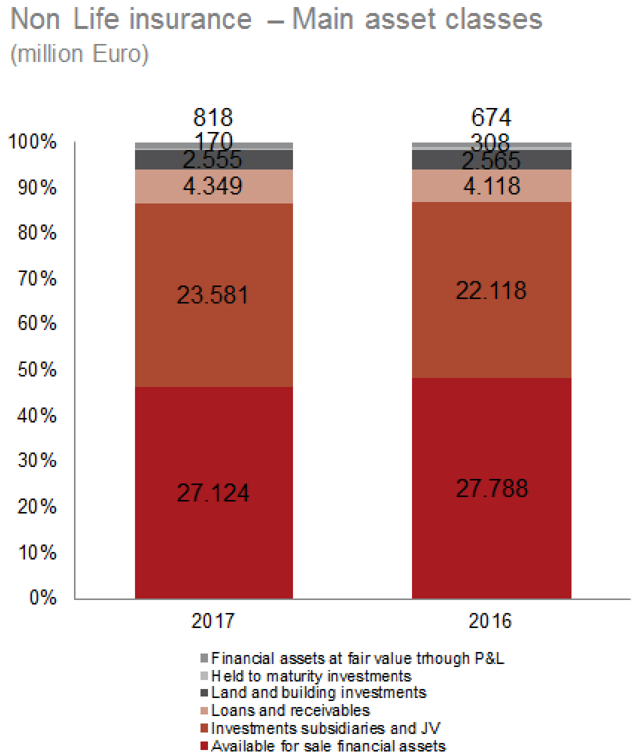
9 Assets held by insurance companies

According to the financial statements of the main insurance groups listed on the Italian stock change (Generali, Unipol, Gruppo Intesa San Paolo Vita including Fideuram Vita, Cattolica, Gruppo Poste Vita, Reale Mutua and Vittoria), their total assets grew by 4.9% in 2017, having benefited from a low interest rate environment. Although BCE started its gradual reduction of asset purchase program, low interest rates have been counterbalanced by the strong performance of the stock markets which led to an increase in total assets.

90.8% of assets is linked to financial investments (against 92.1% in 2016). Of the remaining categories, 3.1% is related to loans and receivable (including reserves held by reinsurers), 2% is split between tangible/intangible and liquid assets, and the remaining 4.1% consists of "other assets". In the life insurance business, assets under management grew by 5.3% as compared to 2016. Financial investments accounted for 93.4% (95% last year) of the total, broken down as follows: 70.4% is represented by financial assets available for sale, 5.2% by shareholdings in controlled and associated companies and joint ventures, 20.4% by financial assets accounted at fair value in the Profit and Loss Account, 3.8% by loans and receivable, and the remaining 0.3% by real estate investments and investments held to maturity.

In the non-life lines, assets under management increased by 1.9% as compared to 2016. Financial investments accounted for 73.9% (74% in 2016) of the total, broken down as follows: 46.3% is represented by financial assets available for sale (48.3% last year), 40.2% by shareholdings in controlled and associated companies and joint ventures (38.4% in 2016), 1.4% by financial assets accounted at fair value in the Profit and Loss Account, 7.4% by loans and accounts receivable, and the remaining 4.7 % by real estate investments and investments held to maturity.





10 Profit and Loss Accounts of listed Groups

Profit and loss accounts of listed companies, which account for 70% of the non-life insurance market and almost 68% of the life market, enable us to draw some conclusions about the technical trend on the Italian insurance market.

In 2017 profitability of insurance companies further improved from the previous year having benefited from better financial investment results, which were driven by an increase in managed assets and by the positive performance of the financial markets.

Despite the decrease in premium income, good results were recorded both in the life and non-life business; in the life sector results were in line with the previous year, whereas the non-life sector experienced a marked increase although claims costs moved higher due to adverse weather events in the third quarter (we should however bear in mind that the comparison with 2016 is unfair as the non-life segment was negatively affected by the Central Italy earthquake). This positive result was due to the performance of non-motor, as well as to the motor sector which experienced a further decrease in the average premium offset by a slight decrease in both the average cost of claims and in the frequency of claims.

RECLASSIFIED PROFIT AND LOSS ACCOUNT – LIFE
Italian portfolio (million Euro)

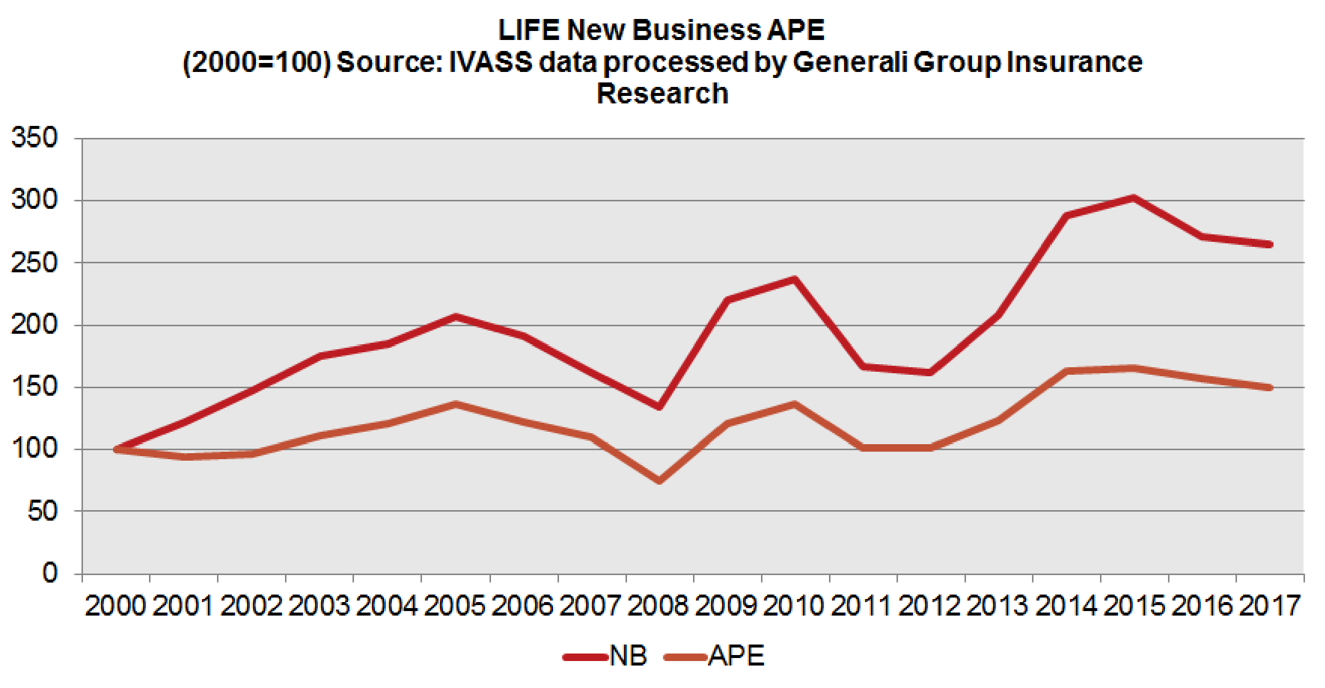
	2017	2016
Gross written premiums	55,076	59,339
Net earned premiums	**54,364**	**58,595**
Income from financial instruments at fair value entered in P&L account	**1,916**	**1,301**
Income from other financial instruments	**11,808**	**11,742**
Income from subsidiaries	**1,414**	**1,605**
Claims paid and change in insurance provisions	**60,959**	**64,844**
Charges deriving from other financial instruments	**1,687**	**1,747**
Net operating expenses	**2,508**	**2,573**
Earnings before tax	**3,932**	**3,997**

Source: P&L accounts of listed companies processed by Generali Group Insurance Research

The “return on equity” (ROE) therefore increased to 10.9% from 10.5%.

11 Profit and Loss Accounts of listed Groups: Life

The 2.8% decrease in the premium income is due to the application of some international accounting standards which provide that "investment contracts" be excluded from the gross written premiums (-7.2% is the actual growth). The ratio of general expenses to premiums rose to 4.6%, from 4.3% in 2016. Administrative costs (1%) were in line with the previous year and acquisition costs have increased (3.6%% as against 3.3% last year). Claims paid, including variations in technical reserves, fell by 6%, from € 64.4 billion in 2016 to € 60.9 billion in 2017. Pre-tax profits were down by 1.6%; the return on assets (ROA) remained stable at 0.8%.



12 Profit and Loss Accounts of listed Groups: Non-life

The sample of listed companies ended the 2017 financial year with a pre-tax profit of € 2,023 billion.

The combined ratio continued to fall, albeit slightly, from 92.3% to the current 93% and if we include Allianz it remained almost stable compared to the previous year (90.8% against 90.9% in 2016). Premium income remained stable with a 1.1% reduction of the number of claim paid .

Data released in the first quarter of 2018 by listed companies confirmed the positive trend already seen in the past years in the non-life segment thanks to the lack of exceptionally bad weather which is usually a cause of major damages.

RECLASSIFIED PROFIT AND LOSS ACCOUNT – NON LIFE

Italian portfolio (million Euro)

	2017	2016
Gross earned premiums	21,460	21,378
Premiums ceded to reinsurers	2,025	1,997
Net earned premiums	**19,435**	**19,381**
Income from financial instruments at fair value entered in P&L account	**-25**	**-104**
Income from other financial instruments	**1,459**	**1,610**
Income from subsidiaries	**1,127**	**1,006**
Claims paid and change in insurance provisions	**12,871**	**12,764**
Charges deriving from other financial instruments	**781**	**1,027**
Net operating expenses	**5,208**	**5,131**
Other costs	**2,401**	**2,244**
Earnings before tax	**2,023**	**1,665**

Source: P&L accounts of listed companies processed by Generali Group Insurance Research; figures do not include Allianz since a P&L account for Italy has not been published yet,

Although motor insurance sector suffered an additional decrease of 1.3% in the average premium while the average cost as well as the frequency of claims remained stable, the combined ratio is expected to remain in line with what posted at the end of March 2017, too.

The operating expenses to premiums ratio further increased and reached 26.5% from 26.8% mainly due to lower premiums. The acquisition costs to premiums ratio reached 22 % (21,3% in 2016), while the administration costs to premiums ratio rose from 5.2% last year to the current 4.8%.

Accordingly, the profitability of the non-life lines improved during the year. The Return on Assets rose from 2.1% to 2.6%.